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SUBJECT: SRI LANKA: AMBASSADOR DISCUSSES TRADE AND INVESTMENT WITH  
MINISTER BOGOLLAGAMA

¶1. (SBU) Summary and comment: Ambassador Blake informed Minister of Investment Promotion and Enterprise Development Rohitha Bogollagama of developing plans for a U.S. trade mission to Sri Lanka in early December, possibly followed soon after by a round of Trade and Investment Framework Agreement (TIFA) talks. But the Ambassador made a strong pitch to the Minister to resolve the AES contract dispute before the arrival of the mission. Bogollagama's trade promotion efforts will include a mission to New York and Los Angeles in March 2007. He said Sri Lanka wants investors to build a new export-oriented oil refinery in future southern port city Hambantota, not outside Colombo as proposed by U.S. firm Global Energy & Industrial Operations. Embassy hopes Minister Bogollagama will improve Sri Lanka's appeal to new investors by applying some of his energy and vision to reducing hassles for existing investors. End summary and comment.

#### Trade Missions Planned in Both Directions

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¶2. (SBU) In a September 22 introductory meeting with Minister of Investment Promotion and Enterprise Development Rohitha Bogollagama, Ambassador reported that a major U.S. trade mission to India would also include a side visit to Sri Lanka in December 2006. At the minister's suggestion, post and Government of Sri Lanka (GSL) trade and investment officials will meet soon to review plans for the trade mission.

¶3. (SBU) Bogollagama noted that he planned to lead a Sri Lankan trade mission to the United States in March 2007, with stops in New York and Los Angeles. Sri Lanka is particularly interested in attracting investment in infrastructure (ports, roads, water supply, and power generation), oil exploration, information technology, and textile production.

#### Oil Exploration and Refining; GEIO Project Out of Favor

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¶4. (SBU) During his mission, Bogollagama intends to meet with U.S. oil companies to inform them of Sri Lanka's plans to license offshore oil exploration in the coming year. Sri Lanka would also like to attract investment in petroleum-related logistics and oil refining, and has begun to discuss these sectors with Indian

refinery giant Reliance and the Indian state-owned Oil and Natural Gas Corporation (ONGC), he said.

15. (SBU) Ambassador Blake noted that the U.S. Trade and Development Agency was providing technical assistance to help Sri Lanka's Petroleum Ministry prepare for the oil exploration licensing process. He emphasized the importance of attracting as many bidders as possible, in order to ensure that Sri Lanka got maximum benefit from a highly competitive bidding process.

16. (SBU) Econoff added that U.S. firm Global Energy & Industrial Operations (GEIO) was hoping to proceed with plans to build a USD 800 million oil refinery at Sapugaskanda, which would seem to address the government's interest in attracting oil refining investments. Minister Bogollagama explained that approval of the GEIO project was unlikely because the government was more interested in building an export-oriented refinery in Hambantota. The state-owned Ceylon Petroleum Corporation (CPC) had plans to expand its existing refinery at Sapagaskunda to service the domestic market. Union leadership at the current CPC refinery opposed the GEIO project because it could make some CPC workers redundant. (Comment: Bogollagama's reply reflects the Rajapaksa government's union-shy and statist leanings, and explains why progress on the GEIO project halted when the current government came into office.)

#### AES Dispute

17. (SBU) The Ambassador stated that solving "irritants" would help Sri Lanka realize its investment promotion goals. He said one example was the AES power plant payment dispute, which had attracted considerable attention in Washington. Minister Bogollagama, who had in the past called for the government to pay what it owed AES, asked

COLOMBO 00001571 002 OF 002

if the case was still stalled. Told that it was, he reiterated his view that the government should honor its contracts and assured the Ambassador that his concern about the case had "registered." (Note: In a previously-scheduled meeting with AES and the Ceylon Electricity Board later the same day, Bogollagama heard each side's position, attempted to identify possible grounds for resolution, and scheduled a subsequent meeting for September 26. He stressed during the meeting that he had "promised" the Ambassador to seek resolution, but also said that merely holding the meeting demonstrated the GSL's interest in supporting investments. End Note.)

#### Comment

18. (SBU) Minister Bogollagama, who worked closely with the Embassy as its lawyer before he went into politics, clearly understands what it takes to attract investors. He travels widely and energetically makes the case for Sri Lanka. Post will encourage him to spend more time problem-solving within the government to ensure that Sri Lanka actually delivers the returns he suggests can be made here. His ability to make progress in the AES case will be a good indicator of how serious he is about keeping investors happy.

BLAKE